

DIRECT TESTIMONY

OF

THOMAS L. GRIFFIN

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

UTILITIES, INC.  
WILDWOOD WATER SERVICE COMPANY

DOCKET No. 01-0178

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**OFFICIAL FILE**

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STB Exhibit No. 1.0

Witness T. Griffin

Date 5/17/01 Reporter PH

**Witness Identification**

**Q. Please state your name and business address.**

A. My name is Thomas L. Griffin. My business address is 160 North LaSalle St.  
Chicago, Illinois 60601.

**Q. By whom are you employed and in what capacity?**

A. I am a supervisor in the Accounting Department of the Financial Analysis Division of  
the Illinois Commerce Commission ("Commission").

**Q. Please describe your qualifications.**

A. For sixteen years prior to my employment with the Commission, I served private  
industry in various capacities, ranging from Staff Accounting positions to Manager of  
Accounting and encompassing all areas of accounting and internal auditing. Since  
joining the Commission's Accounting Department in 1978 I have participated in or  
supervised the accounting activity in cases involving gas, electric, telephone and  
water utilities as well as cases involving companies in the transportation industry.

I have a degree in Business Administration with a concentration in Accounting from  
Governors State University and a degree in Advanced Accounting from International  
Accountants.

18 **Q. What is the function of the Accounting Department of the Illinois Commerce**  
19 **Commission?**

20 A. The Department's function is to monitor the financial condition of public utilities as  
21 part of the Commission's responsibilities under Article IV of the Public Utilities Act  
22 ("Act") (220 ILCS 5/1-101, et seq.) and to provide accounting expertise on matters  
23 before the Commission.

24 **Q. Have you previously testified before this Commission?**

25 A. Yes, I have testified in numerous cases before the Illinois Commerce Commission. I  
26 have also testified as an expert accounting witness before the Circuit Courts in Rock  
27 Island, Illinois and Chicago, Illinois.

28 **Q. What are your responsibilities in this case?**

29 A. I have been assigned to this case by the Manager of the Accounting Department of  
30 the Commission. I am to review Utilities, Inc. ("UI") and Wildwood Water Service  
31 Company's ("WWSC") Joint Petition requesting Commission approval of UI's  
32 proposed purchase of WWSC and other relief. I am also to review the filed  
33 testimony, analyze the underlying data and make recommendations where  
34 appropriate.

**Purpose of Testimony**

**Q. What is the purpose of your testimony in this proceeding?**

A. The purpose of my testimony is to address the petitioners' compliance with Subsections 7-204(b)(2), 7-204(b)(3) and 7-204(b)(7) of the Act. I will also address their treatment of savings and costs associated with the proposed merger pursuant to Subsection 7-204(c). In addition I will address the petitioners' request for Commission approval for UI to enter into a service contract with Water Service Corp. ("WSC"), an affiliated company.

**Compliance with Subsection 7-204(b)(2)**

**Q. Describe the requirements of Subsection 7-204(b)(2).**

A. Subsection 7-204(b)(2) states that, to approve any proposed reorganization, the Commission must find that the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers.

**Q. Is the petitioners' proposed reorganization in compliance with Subsection 7-204(b)(2)?**

A. Yes, in their Petition (page 5) the Joint Petitioners state that the proposed reorganization will not result in the unjustified subsidization of non-utility activities by WWSC or its customers. It is my understanding that none of WWSC assets are

utilized in non-utility activity. Thus, I recommend that the Commission, in accordance with Subsection 7-204(b)(2), find that the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers.

**Compliance with Subsection 7-204(b)(3)**

**Q. Describe the requirements of Subsection 7-204(b)(3).**

**A. Subsection 7-204(b)(3) states that, to approve any proposed reorganization, the Commission must find that costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for rate making purposes.**

**Q. Is the petitioners' proposed reorganization in compliance with Subsection 7-204(b)(3)?**

**A. Yes. To the extent that there would be any costs associated with non-utility activities, the company has allocation procedures that would serve as a reasonable means to guard against unjustified subsidization of non-utility activities. Thus, I recommend that the Commission, in accordance with Subsection 7-204(b)(3), find that costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for ratemaking purposes.**

72 **Compliance with Subsection 7-204(b)(7)**

73 **Q. Describe the requirements of Subsection 7-204(b)(7).**

74 A. Subsection 7-204(b)(7) states that, to approve any proposed reorganization, the  
75 Commission must find that the proposed reorganization is not likely to result in any  
76 adverse rate impacts on retail customers.

77 **Q. Is the petitioners' proposed reorganization in compliance with Subsection 7-**  
78 **204(b)(7)?**

79 A. Yes, I agree with Commission Staff witness Johnson that there would be no adverse  
80 rate impact due to the merger (ICC Staff Exhibit 3.00). I have concluded that the cost  
81 reductions that would be realized by ratepayers in future rate proceedings due to  
82 economies of scale, described by Erin L. Nicholas in her Direct Testimony, would  
83 exceed any additional cost to be realized by ratepayers in a future rate proceeding.  
84 Thus, I recommend that the Commission, in accordance with Subsection 7-  
85 204(b)(7), find that the proposed reorganization is not likely to result in any adverse  
86 rate impacts on retail customers.

**Compliance with Subsection 7-204(c)**

**Q. Describe the requirements of Subsection 7-204(c).**

**A.** Subsection 7-204(c) states that the Commission shall not approve a reorganization without ruling on (i) the allocation of any savings resulting from the proposed reorganization; and (ii) whether the companies should be allowed to recover any costs incurred in accomplishing the proposed reorganization and, if so, the amount of costs eligible for recovery and how the costs will be allocated.

**Q. Have the Joint Petitioners addressed Subsection 7-204(c) in their testimony?**

**A.** Yes.

**Q. What is the petitioners' position with regard to savings resulting from the proposed reorganization?**

**A.** With respect to savings, Ms. Nicholas states that savings are expected to occur due to economies of scale resulting from the merger. These savings will be passed on to rate payers in future rate cases. I agree with her position. It is appropriate for future rates to reflect only future costs. Therefore, future revenue requirements should not be increased in order to enable the company to retain any portion of the savings resulting from the merger. Future revenue requirements should continue to be based upon the reasonable and prudent costs incurred by the utility to provide service to its customers. I recommend that the Commission's Order find that any cost savings

106 resulting from the merger should not increase the revenue requirement in future rate  
107 filings.

108 **Q. What is the petitioners' position with regard to merger costs?**

109 **A.** Petitioners estimate that the total cost of the merger will be \$6,000 and will be  
110 incurred to meet the necessary cost of incorporation and regulatory approvals. Their  
111 proposal is to charge the costs to Account 301, "Organization Expense" and include  
112 them in their rate base in future rate case filings.

113 **Q. Do you agree with the petitioners' treatment of merger costs, which was**  
114 **provided in response to your data request?**

115 **A.** No. Recent Commission Orders, which have been entered after the adoption of  
116 Subsection 7-204(c) effective December 16, 1997, have identified this type of  
117 merger cost as a "transactions cost" and have disallowed recovery of "transactions  
118 costs" from ratepayers. The Commission has disallowed these "transactions costs"  
119 in the following dockets:

120 98-0545 and 98-0546 - the merger of CIPS and UE into Ameren;

121 99-0121 - the rate determination of AmerenCIPS and AmerenUE for unbundled non  
122 residential delivery services;

123 98-0555 - the merger of SBC and Ameritech;

124 98-0866 - the merger of GTE and Bell Atlantic;



99-0418 - the merger of Illinois American Water and Northern Illinois Water; and

99-0457 - the merger of Illinois American Water and United Water Company.

**Q. What accounting treatment do you recommend for the present merger?**

**A.** Accounting Instruction 21 of the Commission's Uniform System of Accounts for Water Utilities (83 Ill. Adm. Code 605) describes the appropriate accounting treatment for acquisitions. Under Accounting Instruction 21, expenses incidental to the acquisition are included in the total cost which is charged to Account 104 "Utility Plant Purchased or Sold". Account 104 is then credited and the net book value of the plant purchased is recorded in the appropriate plant and depreciation accounts. Any remaining amount is then either debited or credited to Account 114 "Utility Plant Acquisition Adjustment".

In the present merger the entire \$6,000 merger cost should be charged to Account 104 as part of the purchase price and then Account 104 should be credited and Account 114 should be debited for the \$6,000. None of the merger costs will be recovered from ratepayers in any future rate proceeding.

**Q. Describe the proposed rate making treatment of the acquisition adjustment.**

**A.** The petitioners expect a debit acquisition adjustment resulting from the merger to total approximately \$76,362. They intend to record the acquisition adjustment in Account 114, "Utility Plant Acquisition Adjustments" and amortize the adjustment

below-the-line to Account 426, "Miscellaneous Non-Utility Expenses" over 50 years and not include any unamortized portion in rate base. I support this treatment. However, under Accounting Instruction 21, the debit balance of \$76,362 should be increased by the \$6,000 in merger costs as previously described, leaving a debit balance of \$82,362. I recommend that the Commission order conclude that the acquisition adjustment, including merger costs, should be recorded in Account 114, "Utility Plant Acquisition Adjustments", and be amortized below-the-line to Account 426, "Miscellaneous Non-Utility Expenses" over 50 years, and the unamortized portion of the acquisition adjustment not be included in rate base for future rate cases.

**Q. Please summarize your recommendations regarding the requirements of Subsection 7-204(c).**

**A.** I recommend that the Commission find the following, in accordance with Subsection 7-204(c):

- Any cost savings resulting from the merger should not increase the revenue requirement in future rate filings;
- The cost incurred to effect the merger should be charged to Account 114, "Utility Plant Acquisition Adjustments"; and

- 163       • The acquisition adjustment should be recorded in Account 114, "Utility Plant  
164       Acquisition Adjustments", and be amortized below-the-line to Account 426,  
165       "Miscellaneous Non-Utility Expenses", over 50 years, and the unamortized  
166       portion of the acquisition adjustment not be included in rate base for future rate  
167       cases.

168       **Request for Approval of an Affiliated Service Contract**

169       **Q.    Do you support the petitioners' request for WWSC to enter into a service**  
170       **contract with WSC, an affiliated interest?**

171       A.    Yes, all of UI's Illinois utility subsidiaries have such a service contract with WSC.  
172       ~~Various administrative costs are allocated to utilities for services performed by~~  
173       WSC. During each prospective rate case, Staff would review the allocations for  
174       appropriateness. I recommend that the Commission approve the service contract  
175       between WWSC and WSC.

176       **Other Recommendations**

177       **Q.    Do you have any other recommendations?**

178       A.    I recommend that the Commission order the company to comply with Paragraph B of  
179       the instruction to Account 104, "Utility Plant Purchased or Sold" of the Uniform  
180       System of Accounts for Water Utilities, and require the Petitioners to file with the  
181       Commission, and a copy to the Manager of the Accounting Department, the journal

entries to clear from this account the amounts recorded therein. This should be done within six months of the effective date of the acquisition.

**Summary**

**Q. Please summarize your findings and recommendations.**

**A. I recommend as follows:**

1) that the Commission, in accordance with Subsection 7-204(b)(2), find that the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers;

2) that the Commission, in accordance with Subsection 7-204(b)(3), find that costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for ratemaking purposes;

3) that the Commission, in accordance with Subsection 7-204(b)(7), find that the proposed reorganization is not likely to result in any adverse rate impacts on retail customers;

4) that the Commission, in accordance with Subsection 7-204(c)(i), order that any cost savings resulting from the merger should not increase the revenue requirement in future rate filings;

5) that the Commission, in accordance with Subsection 7-204(c)(ii), order that the cost incurred to effect the merger be charged to Account 114, Utility Plant Acquisition Adjustment;

6) that the Commission, in accordance with Subsection 7-204(c)(ii), order that the acquisition adjustment should be recorded in Account 114, Utility Plant Acquisition Adjustments, and be amortized below-the-line to Account 426, Miscellaneous Non-Utility Expenses, over 50 years, and that the unamortized portion of the acquisition adjustment not be included in rate base for future rate cases;

7) that the Commission approve the service contract between WWSC and WSC;  
and

8) that the Commission order the company to comply with Paragraph B of the instruction to Account 104, "Utility Plant Purchased or Sold" of the Uniform System of Accounts for Water Utilities, and require the petitioners to file with the Commission, and a copy to the manager of the Accounting Department, the journal entries to clear from this account the amounts recorded therein. This should be done within six months of the effective date of the acquisition.

**Q. Does this conclude your testimony?**

**A. Yes, it does.**